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FISCAL IMPACT STATEMENT

LS 7420

BILL NUMBER: HB 1922

NOTE PREPARED: Jan 19, 2003

BILL AMENDED:

SUBJECT: Retired Teacher Pensions and Health Insurance.

FIRST AUTHOR: Rep. Adams

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill (1) removes the two-year limitation on a surviving spouse's participation in a retired local unit employee's group health insurance program and reinstates surviving spouses who are eligible for coverage; (2) eliminates the earnings cap for a retired Teachers' Retirement Fund (TRF) member who is reemployed in a covered position and has not attained the Social Security normal retirement age for unreduced benefits; (3) reduces to 30 days the period within which retirement benefits stop if a retired TRF member is reemployed in a covered position; and (4) permits a retired TRF member to assign benefits for paying dues for a retired membership to any association that proves to the TRF Board's satisfaction that the association has as members at least 50% of the number of active members of the Fund.

Effective Date: July 1, 2003.

Explanation of State Expenditures: *Part 1:* The cost of the health insurance provision of this bill is unknown. Several factors contribute to the cost of this provision: (1) type of insurance provided; (2) number of surviving spouses currently receiving health benefits; (3) number of surviving spouses that are no longer eligible for health benefits due to the two-year limit; and (4) adverse experience factor of retirees. [NOTE: The Teachers' Retirement Fund is attempting to identify the number who may be affected by this provision of the proposal. When this information is received, this part of the fiscal note will be updated.]

It is unknown if local groups would absorb any additional costs resulting from this bill or pass the costs onto employees in the form of higher deductibles, higher premiums, or by limiting other conditions covered. Cost sharing of health benefit premiums varies widely by locality.

(1) *Type of Insurance Provided:* School districts may select from three options for employee/retiree health insurance. The school district may either be self-insured, purchase group insurance, or buy into the Local

Unit Group (LUG) option of the state employee plan. Due to collective bargaining agreements the insurance benefit plan and associated cost of insurance varies by school district. The premiums for the LUG option of the state employee plan average \$6,500 for single coverage and \$17,250 for family coverage.

(2) *Number of Surviving Spouses Currently Receiving Health Benefits:* The current number of surviving spouses receiving health benefits is unknown. The cost associated with surviving spouses currently receiving health benefits is contingent upon the number receiving benefits and the adverse experience factor (see below). If an individual is allowed to remain in the benefit pool for a longer period of time, the total risk of the pool may increase. The increase in risk may result in higher premium costs for all individuals in the benefit pool.

(3) *Number of Surviving Spouses That Are No Longer Eligible for Health Benefits Due to Two-Year Limit:* The number of surviving spouses that are no longer eligible for health benefits due to the two-year time limit is unknown. The cost associated with allowing these individuals to purchase insurance is contingent upon the number that re-enroll and the adverse experience factor (see below).

(4) *Adverse Experience Factor:* The cost of this proposal is higher due to retirees having an adverse experience factor equal to \$2.45 in claims expenses for every \$1 in claims expenses experienced by the group as a whole. (This number is based upon early retiree data enrolled in the state employee plan from the State Department of Personnel.) For the basis of this analysis it is assumed that the cost of health benefits for retirees is 2.45 times more expensive than the regular employee pool. Thus, the cost for a surviving spouse enrolled in the school health insurance program is actually 1.45 times more expensive than the premium paid.

Under the LUG option actual costs for a retired surviving spouse are estimated to be \$15,800 for single coverage, taking into account the adverse experience factor. Current statute allows for the school district to require the surviving spouse to pay the employer and employee share of health insurance cost. However, this cost does not include the adverse experience factor. Thus, the true cost of providing this benefit may result in higher premiums for the entire employee pool. However, the extent that this adverse experience will actually impact premiums is not known at this time and is dependent upon claims submitted.

Part 2: The specific fiscal impact will depend upon the number of TRF members affected by the newly proposed exempt amount. Based on the assumptions below, the annual cost is estimated at \$120,000 per year. The fund affected is the state General Fund.

Background Information: For FY 2002, 13 TRF members had their benefits suspended because of the exempt amount provision as it currently exists. In addition, the TRF reports that there are usually a few members who must pay back benefits when it is discovered after the fact that they have exceeded the exempt amount. The temporary suspension of benefits is dependent upon reporting by local boards of education. The member's benefits are suspended once the TRF receives notification that the member has reached the exempt amount. At the beginning of the next fiscal year, the benefits are reinstated until the member again reaches the exempt amount.

The proposal means that more benefits will be paid out each year than at the current level. Specific data are not available on which to base an estimate. The following assumptions are used for *illustrative purposes*.

An average salary of \$55,000 (the approximate average salary for active members in the 50- to 65-year age range).

An average annual pension of \$18,000 (the approximate average for retirements from 1999 to 2001). This would be paid in monthly installments of \$1,500 beginning July 1.

The school year (and thus the payroll period) begins September 1, two months into the fiscal year.

Based on the above, the pay for such a member would reach the current law's "exempt amount" of \$25,000 toward the end of January. At that point, the member would have received seven months of benefit payments; and (assuming the member continues to teach) the remaining five months of payments would be suspended. At \$18,000 per year, this would mean \$7,500 of forgone benefit payments to the member. This bill removes the \$25,000 cap. Consequently, the \$7,500 of additional benefit payments is the increase in cost to the TRF, based on this example. If it is assumed that 20 members per year would be affected by this proposal, the fiscal impact would be \$150,000 per year. This represents less than 0.01% of the TRF active payroll. The 20-member per year assumption is consistent with the level of utilization at the \$25,000 level.

In the end, the specific fiscal impact will depend upon the number involved and the actual amount earned.

Part 3: The impact will depend upon the number of teachers in this category.

Part 4: There may be additional administrative costs (initially) associated with this change.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: School Corporations.

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